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Institutional concentration and domestic firm investment decisions in Belarus

ABSTRACT

The chapter analyses changes in the level of decision-making autonomy of state-controlled and private companies operating in Belarus under the conditions of increasing institutional concentration. We find that the excessive regulatory burden still allows for some enterprise-level autonomy in investment decisions, particularly for private companies, while state-controlled companies have to resort to using their informal connections to secure the ability to operate semi-autonomously. The findings thus challenge the thesis on extreme rigidity of Belarusian regulatory system and shed light on certain management practices at the company level.

INTRODUCTION

Applying Zartman and Rubin (2000) theory of power and negotiation, the chapter analyses investment decisions made by private and quasi-private Belarusian firms under continuously increasing institutional concentration. For the first two decades of transition, institutional fluidity, dominance of informal business interest groups, business networks and ethnic clans over weakened government structures were common in former Soviet economies (e.g., Wedel, 2001; Yakovlev and Zhuravskaya, 2006; Melnykovska, 2008; Closson, 2009; Ledeneva, 2009). The *raison d'être behind the* domestic firms' investment decisions at the time was often determined by the desire to secure firms' financial future by complying with unwritten 'rules of the game'.

The decline of the legitimacy of formal institutions and prevailing informality in state-firm relations in the region has its roots in *blat* – informal corruption networks of the Soviet society which provided enterprise directors with access to limited economic resources, the task only possible through well-established political connections.

The adoption of a number of new laws during *perestroika*¹ *did not remove* the power of the *blat* but, rather, gave the informality a new dimension. With a *de-facto* denationalisation and privatisation of the Soviet economy, informal business/ethnic interest groups managed to obtain the access to the resources previously controlled by the state. By 1991, politically connected individuals and the insiders from the Communist political elite assumed ownership of at least two-thirds of Russian industrial enterprises (e.g., McFaul, 1995) forming oligarchic groupings with incredible lobbying power. Formal state institutions had to either give in to the power of informal networks (e.g., Yakovlev and Zhuravskaya, 2006; Viktorov, 2015) or merge with them, creating authoritarian neopatrimonial regimes (e.g., Ilkhamov, 2007; Özcan, 2010; Laruelle, 2012; Lewis, 2012).

However, the last two decades have seen the state largely restoring the position it had lost in the 1980s-1990s. The most notable example here is Russia where the government managed to subdue oligarchic lobbying groups to formal ‘rules of the game’. The new model is believed to be characterised by considerable state involvement in the economy, clientelism and corruption, and has hence been labeled patrimonial state capitalism (e.g., Easter, 2008; Robinson, 2011, Becker, 2013). At the same time, informal

¹ The situation started to change in 1987 when the law ‘On the state enterprise’ granted the working collective the ability to fully dispose of the profit while the assets still remained in the state property. It was followed by the introduction of five major laws: ‘On cooperation in the USSR’ (1988), ‘The foundations of the rent in the USSR’ (1989) ‘On the property in the RSFSR’ (1990), ‘On the general foundations of entrepreneurship for the citizens in the USSR’ (1991) and ‘On the privatisation of the state and municipal enterprises in RSFSR’ (1991).

practices remain embedded in routine business practices of small and medium Russian companies (Vasileva, 2017) thus indicating a similarity between the current Russian political-economic model and its Soviet predecessor in terms of the power of informality in state-business relations.

This chapter focuses on Belarus which is another example of continuity between the Soviet and the modern model of state-business relations. Unlike most of its post-Soviet neighbours, Belarus has never experienced institutional fluidity after the collapse of the Soviet Union. The government's attempt to maintain a Soviet regulatory model through the multitude of presidential decrees and government enactments has led to ever increasing state involvement in the economy (Danilovich and Croucher, 2015, Adarov et al., 2016). It has been previously argued that imbalanced institutional and political environment in Belarus, characterised by extreme concentration of government institutions and fluidity of non-governmental structures, as well as indirect state ownership of a large proportion of industrial and service companies, negatively affect the ability of the senior management of domestic firms to make economically rational investment decisions causing further institutional concentration. Despite the efforts of external lending organisations to encourage the development of state-independent private sector, the industry has largely remained in the state's hands thus preserving the dominance of industrial ministries or *kontsern*' over the management's decision-making in state-owned and quasi-privatised companies.

However, unlike Russia, the degree of informality in day-to-day business activities seems to have fallen. We have a reason to believe that the state's desire to reduce the role of informality for individual businesses has partially led to westernisation of business practices in industries dominated by private companies, particularly the IT industry. For

others, however, informal relations with government institutions have remained a significant part of operations. One may argue, however, that even under these conditions, senior management of Belarusian companies manages to preserve a certain degree of independence in decision making and are able to yield profits. Thus one may question the actual degree of dysfunctionality of the Belarusian regulatory model.

In this chapter we are trying to assess the degree of independent decision-making by Belarusian enterprise directors with regards to investment under the conditions of increasing concentration of formal institutions. From a managerial perspective we contribute to the understanding of peculiarities of intra-firm decision-making under the conditions of the ‘fake’ transition.

From the policy perspective we highlight important institutional differences between Belarus and other economies of transitional periphery, most of which are characterised by considerable institutional fluidity and dominance of clan politics. We assess the extent to which the capacity of businesses to act independently is being suppressed by the single powerful actor forcing these organisations to find ways around formal ‘rules of the game’. We then discuss whether the state-business relations are one of the factors contributing to the ability of Belarusian economy to still stay afloat despite massive external debt and outdated industrial base. We therefore contribute to the debate on the nature of the institutional and socio-economic transformation at post-Soviet transitional periphery and its potential implications for domestic firms.

We start by deriving our research questions from the critical analysis of existing literature on post-Soviet transition trajectories, with the special focus on Belarus. We then explain our research methodology. The chapter continues by analysing primary and secondary data on enterprise decision-making, informality and institutional development

in Belarus. We conclude with deriving main patterns of state-business relations in Belarus and assessing the effect they have on the development of the country's socio-economic model.

THEORY AND RESEARCH QUESTIONS

The effect of national economic elites on the direction of transition trajectories in former Soviet economies has been long recognised (e.g., Wedel, 2001; Frye, 2002, 2010; Hellman, Jones and Kaufmann, 2003; Iwasaki and Suzuki, 2007; Junisbai, 2010). Three main models of state-business relations in the post-Soviet space have been identified: the oligarchic state-capture, the ethnic-clan neopatrimonialism and the indirect negotiated influence with the authoritarian state.

Oligarchic state-capture was common in Russia, Ukraine, Moldova and some of the economies of the Caucasus where collaborating oligarchic business structures had a strong influence on the formation of the new economic and political environment by merging with weakened formal institutions and using the newly created ties to divert considerable economic resources towards themselves (Olson, 2000; Fries, Lysenko and Polanec, 2003; Guriev and Rachinsky, 2006; Closson, 2009; Pyle, 2011) forcing the governments to resort to coercive methods of corporate exploitation (licencing, inspections, etc.) in order to keep at least some control over the economy (Johnson, McMill and Woodruff, 2002; Iwasaki and Suzuki, 2007).

At the start of the transition, the process of oligarchic state capture was dominated by criminal organisations and oligarchs who grew out of the old Soviet elite (Aslund, Boone and Johnson, 2001). After 2005 these groups gradually lost their influence and were replaced with merged power networks between new business elites and top government bureaucrats (e.g, Frye, 2002; Viktorov, 2015). While business elites in Ukraine, Moldova and the Caucasian economies continued to dominate in economics and politics (Closson, 2009; Fisun, 2016; Markus and Charnysh, 2017), in Russia the state managed to reclaim a large share of its bargaining power by suppressing its business allies through a series of repressive measures (e.g., Hoffman, 2011). This led to the formation of a new type of negotiation-based state-business relations with both parties being of relatively equal perceived bargaining power and being forced to assume common motivational orientation in order to function efficiently.

At the same time, non-oligarchic business entities in Russia remain a weak party in negotiations with the state bodies and are therefore forced to resort to corruption in dealing with the state machine. Recent research into entrepreneurial orientation and investment decisions of Russian SMEs found that operating in unstable institutional environment characterised by a large ‘shadow economy’ compels many companies to make decisions based on the information obtained from informal, sometimes, illegal contacts they develop with the local officials in order to circumvent the limitations imposed by formal rules and regulations (Wales et al., 2016). Unfortunately, large inconsistencies in informal relations combined with instability in the protection of private property rights leave many Russian companies exposed to private raiding, creating fundamental threats to their existence (Levina et al., 2016).

Ethnic-clan neopatrimonialism is a characteristic feature of socio-political transition in Central Asian economies, where certain nationalities/ethnic clans managed to preserve and further accumulate wealth and political influence within a certain territory due to lack of push ‘from below’. The absence of ‘critical junctures’ together with the Soviet legacy have led to the establishment of rent-seeking, authoritarian regimes across Central Asia. The emergence of the entrepreneurial class in these countries occurred under the direct political patronage, forcing the business to negotiate its position with the ruling political elite in order to secure property rights which resulted in high levels of government corruption (e.g., Özkan, 2010; Pomfret, 2012; Kubicek, 2016).

Similarly to Russia and Ukraine, SMEs in Central Asia and Caucasus suffer from widespread corruption and base their investment decisions on insider information from informal sources. Corruption and strong ties between the business elite and the officialdom resulted in the emergence ‘frozen state’, with no visible institutional or socio-economic dynamics (Gallina, 2010). Özkan (2010) study of entrepreneurs in Uzbekistan demonstrated low appreciation of the business society of the quality of the country’s legal system and the judiciary; the majority of entrepreneurs would prefer to seek solution by using family and friends network rather than go through official channels. Informal ties seem to be working the best if both parties are of the same ethnic origin/clan. A more recent inquiry into SME financing in Uzbekistan further confirmed the importance of informal connections to government bureaucracy for entrepreneurs when securing formal financing (Ruziev and Midmore, 2015). Thus one can argue that although on the surface the two models that emerged across the post-Soviet region are quite different in that they give the upper hand to opposite parties (the state in Russia and ethnic clans in Central Asia), they are similar in nature since effective business operations within both models

require the companies to maintain high level of informal personal connections with government bureaucracies. As the actual nature of informal relations has not changed much since the Soviet times despite numerous reforms of government structures and institutions, the efficiency of post-Soviet economic and institutional reforms can be put under question even in Russia which, undoubtedly moved further towards capitalism than any other post-Soviet economy.

The model of state-business relations that has developed in Belarus in the last two decades assumes the leading role of the state as the main economic actor. Since the government managed to keep tight grip on the country's industrial base, Russian-style powerful oligarchic lobby has never developed. The dominance of certain ethnic clans in the economy and politics was also impossible in Belarus due to a relatively homogenous ethnic composition of the population. Hence, the literature on Belarusian transition describes the 'pseudo-market' transition model where the government has made continuous attempts to preserve Soviet institutional structures and socialist-style state-business relations (e.g., Brixiova and Volchok, 2005; Fritz, 2008; Wilson, 2012, Favaro, Smits and Bakanova, 2012; Cuaresma, Oberhofer and Vincelette, 2012; Danilovich and Croucher, 2015; Dabrowski, 2016). The result is the unsustainable model where the state possesses overwhelming control over the economy, and the changes only occur on surface in order for the country to obtain a certain positive image in international ratings, such as the World Bank's Doing Business report.

Indeed, although for the first few years of independence Belarussian economy and society were undergoing the transition 'from plan to market' similar to the rest of the former Soviet Union, since mid-1990s the reforms were stalled and then reversed. Unlike Russia, where such 'involuntary retrogression' (Burawoy, 2001) had led to the

establishment of powerful state-capturing oligarchic structures, in Belarus the consolidation of power occurred around formal institutional structures, particularly their executive (Presidential) branch which managed to preserve control over the economy and subordinate newly-created economic elites which were forced to establish strong ties to the governmental and presidential structures in order to continue their economic activities (e.g., Wilson, 2012). Belarusian government thus acts as a capitalist corporatist interest group and occupies the same niche oligarchs and ethnic clans have in the rest of the region.

At the same time, private property rights in Belarus are weakly protected; there is no independent judiciary; the regulation is rather unpredictable since the country is run by presidential decrees which supersede the law. The industry is still represented by fully state-owned or quasi-privatised enterprises with an excessively large government share (more than 90 percent in some cases). Since the majority of the population outside the capital, Minsk, is employed at these companies, the government retains indirect control over wages thus creating an artificial sense of equality among the large share of the population thus avoiding large-scale social unrest (Bell and Bell, 2015). However, a few latest legal acts, particularly the controversial ‘law on social parasites’, which in effect, taxes the most vulnerable groups of population have caused mass protests which were suppressed by the police.

The private sector accounts for about a quarter of all businesses and predominantly consists of small and medium-size service companies with the total output of 20.6 percent of GDP in 2015 (Shimanovich, 2016). The largest share of the output from private companies comes from IT sector which has received a considerable boost in the last few years, with its output reaching \$US1120 million in 2015 (Uniter, 2016).

Despite being united in a few employers' and entrepreneurs' associations, private Belarusian companies have so far failed to create an industrial lobby strong enough to influence government policymaking.

The largest share of domestic investments in Belarus is initiated by the government and is undertaken either by state-owned/quasi-privatised enterprises or is delivered through government investment programmes, e.g., the industry modernisation programme aimed at replacing outdated machinery and equipment at the country's manufacturing enterprises (e.g., Sokolova, 2009; Ministry of Economics of the Republic of Belarus, 2012). Despite the fact that the actual rate of investment in Belarus was higher than in the rest of the Commonwealth of Independent States (CIS) until the last two years, the centralised control over the size and the distribution of investment funds negatively affected their effectiveness. State-owned and quasi-privatised enterprises still follow the Soviet-type centrally planned system of output-based targets developed by branch ministries in order to meet growth standards set by the President's administration (e.g., Bell and Bell, 2015; Dabrowski, 2016; Dobrinsky et al., 2016). The targets are set incredibly high and are impossible to reach given the current state of the industry. One example is the government requirement to enterprises to cut production costs by 25 percent by the end of 2016 (Zlotnikov, 2017) and simultaneously increase the output to achieve planned GDP growth rates.

Previous studies found that enterprise directors had a little say in the way the investment funds were used and had to comply with the state policies under the threat of criminal prosecution (Dabrowski, 2016). The latest criminal cases against the business proved the same to be true for private investors, some of whom were accused of mismanaging funds and not reaching impossibly high production targets. For example,

the private investor who bought the bicycle and motorcycle factory ‘Motovelo’ and was accused of such crimes, was given an 11-year prison sentence. All his property, including the company shares, was confiscated by the state (Sputnik, 2017).

When analysing the Belarusian ‘pseudo-market’ transition model, one may wonder whether there is any scope for independent company-level decision-making. Our questions therefore are: to what degree (if any) can senior management of Belarusian state-owned, quasi-privatised and private companies act autonomously with respect to company investment; and what methods (if any) they use to push their companies’ agenda?

METHODOLOGY

Problems with conducting primary research in Belarus have been highlighted by earlier studies (e.g., Mandell, 2004; Danilovich and Croucher, 2015; Danilovich, Croucher and Makovskaya). The most common issues include the lack of reliable data on enterprise policies due to lack of documentation since Belarusian enterprises routinely only collect data they need for state reporting; and scarce secondary data on state-enterprise relations and on company decision-making in general.

For our inquiry the main problem presented the unwillingness of senior management to participate in the research and grant researchers access to company data and personnel. The system of ideological control at Belarusian enterprises is even stronger than it was in the Soviet times. Hence senior managers fear of being the ones disclosing potentially sensitive information contradicting the official position. CEOs of private companies, to our surprise, were much more accommodating which presented a dramatic change from previous years when they were as hostile to researchers as their

counterparts from state-owned and quasi-privatised enterprises. However, we were able to obtain information from some of the representatives of the senior management of state-owned and quasi-privatised enterprises.

Sample

Our sample included senior managers of 9 state-owned and quasi-privatised manufacturing enterprises (4 deputy directors, 3 chief financial officers and 6 planning managers) as well as the CEOs of 8 private companies, representing service, retail and IT sectors. Though some may argue that the different statuses of the senior managers from both categories of the state-controlled enterprises may have impacted the reliability of the received information, in reality the senior management of Belarusian enterprises is rather well-knowledgeable of the actual state of the relations between their directors and their superiors in branch ministries and other governmental institutions. None of the company directors themselves participated in the study which can be explained by their unwillingness to open themselves up to anything that could potentially compromise informal relationships they've created with governmental organisations. Unlike them, the CEOs of private companies were much more open to the conversation. We believe that the reason for their openness was that none of their companies was among what Belarusian authorities would deem 'strategically important' and hence requiring direct ideological control.

Measurements

Finding measurements which reflect both formal and informal state-business relations in Belarus has been a challenging exercise. On the one hand, formal relations are supposed to be largely captured by the World Bank Doing Business indicators which cover a number of areas, from starting a business, registering property and getting credit

to contract enforcement and insolvencies, and the Transparency International Corruption Perception Index. However, in our view, these indicators do not cover the important indicators of informal relations between enterprise directors and government officials. Hence, in addition to using these two sets of indices, we add a number of others, i.e.:

- Negotiated changes in output targets;
- Areas of independent investment-related decision making;
- Amount of state investment funding received;
- Amount and dynamics of government subsidies received (these funds are different from investment funding since they are aimed not at the improvement of the production process but on debt repayment and elimination of wage arrears);
- The dynamics of annual number of inspections by various government bodies;
- Amount of 'social welfare burden' on the company's books.

The direct government influence on companies was also assessed through the analysis of the strength of the ideological control at individual companies.

Methods

Semi-structured interviews were used as the main method for the study and were supplemented by the analysis of available company statistics. The choice of interviews as the main research method was dictated by the unwillingness of the respondents to fill in questionnaires (the common practice we noticed during our previous encounters with Belarusian enterprise managers). Hence the interviews allowed collecting rich first-hand data which otherwise would not have been available. Despite the belief that using interviews as a research tool when studying non-market economies is non-objective since

the responses can be biased, in our case they allowed to obtain the data on a sensitive subject from the companies with different forms of ownership.

Each interview took between 45 to 60 minutes. Interviews were conducted at the workplaces; the ones with the senior managers of state-owned and quasi-privatised companies had to be recorded manually since the subjects refused to have any recordings of their voices made which shows the degree of their fear to be compromised in any way. The CEOs of private companies were more open to recording the interviews, although some preferred to have the interviews conducted outside of their workplaces. The data received were manually analysed in relation to questions asked.

The statistical analysis involved analysing the figures on company output as well as statistics on enterprise expenditure. The statistical data from state-owned and quasi-privatised enterprises proved to be valuable in two ways: first as a quality control tool for some of the interview data, and, second, as a separate source allowing to, at least partially, trace the dynamics of the relations between the state and each individual company. Similar data from private companies was far patchier and much less useful in this respect.

FINDINGS

State-business relations in Belarus: do international indexes cover them all?

The relationship between the state and the business is reflected by the number of composite ratings created by international organisations. The main question is whether (despite claiming objectivity) they actually present the full picture of the said relations? We analysed two of the most influential, the World Bank's Doing Business (DB) rating and the Transparency International' Corruption Perception Index (CPI) with respect to Belarusian economy and institutional environment for business.

Belarus was showing positive dynamics in both ratings over the years, demonstrating the easing in overcoming formal barriers to registering and starting the business, getting credit (also as a result of better access to information on public finance), dealing with contract enforcement, insolvencies, being more protected from bribery and extortion due to improved judiciary and law enforcement (Table 1). Although better ratings can be an indicator of improved institutional environment, one still wonders whether these changes have found their reflection in the actual relationships between the state and the enterprises of various forms of ownership.

Table 1

The dynamics of Doing Business and Corruption Perception Index ratings for Belarus

Year	Doing Business rating (out of 183 countries)	Corruption perception Index rating (out of 176 countries)
2006	124	151
2007	129	150
2008	110	151
2009	85	139
2010	58	127
2011	68	143
2012	60	123
2013	58	123
2014	63	119
2015	57	107
2016	50	79

2017	37	n/a
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Source: Doing Business; Corruption Perception Index, various years

Unfortunately, none of the indexes provide separate estimations for enterprises of different forms of ownership. The analysis of the methodology used for calculating the indexes shows that they were based on the influence institutional environment has on purely private companies, which, in case of Belarus, do not exceed a quarter of the total number of companies, are mostly SMEs and are not being covered by the system of production targets and government programs thus reducing their contacts with government officials to the minimum.

Another problem with the indexes when applied to Belarusian reality is that the indicators included in the composite indexes reflect changes in the law, not in real-life practices. To name a few, a ‘getting credit’ indicator (a part of the Doing Business rating), for example, reflects legal changes to the rights of borrowers and lenders, the ease of obtaining information on available credit, existence of the centralised credit database, as well as a the introduction of some new formal elements into the system, such as the launch of the unitary secured transactions system or securing the right of the creditors to receive back the funds through the court in case the borrower goes into administration. Although these elements are easily introducible (and have been introduced in Belarus for the rating purposes), they do not reflect the actual availability of credit to Belarusian companies since a) most of the commercial banks in the country are *de facto* state-owned (e.g., Bell and Bell, 2015) and operate under the same government rules which limit the availability of credit to pure private companies, and b) the majority of the country’s industrial core is also directly or indirectly owned by the government and is financed outside of the traditional banking credit system either through state investment programs or direct

subsidies from the ministries, both of which are not included in the ‘getting credit’ indicator.

Another example of limited coverage of the Doing Business rating is the ‘protecting minority investors’ indicator. Under the conditions of market economy, the protection of the interests of minority shareholders from company directors’ arbitrary decisions represents an important achievement. The data is collected from corporate and securities accounts and shows respective changes in company codes and the relevant legislature (both laws and court rulings). However, these formal sources do not manifest the actual state of the problem in the state-controlled Belarusian economy. The only minority shareholders at quasi-privatised and private companies in the country are the workers (the labour collective). While quasi-privatised enterprises are controlled by the government and the workers are deprived of their voice (Danilovich, 2017), no conflict of interests with respect to the management’s decisions can occur. Private companies of any potential value to the state are often renationalised under any excuse. One of the most vivid cases was the renationalisation of the pharmaceutical company ‘Belmedpreparaty’. The enterprise was first privatised by the workers and the management in 1995. It was returned into state ownership by the court ruling in 2004 when the company was about to attract potential foreign investors, something the government was not going to allow.

A similar story happened with the wood processing/furniture producer ‘Pinskdrev’ which was fully privatised in the 1990s. However, in 2011 it was renationalised by a special Presidential Decree which appointed the state kontsern ‘Bellesbumprom’ as ‘Pinskdrev’s management company under the pretext of the need to protect the interests of the labour collective after the accident took place at the enterprise.

Another blow to early Belarusian privatisation was the Presidential Decree No.107 (14.03.2011) which limited free circulation of company shares at the securities market and established state observing committees at private companies with the government share of 50 percent and less. The observing committees were granted the right to start the renationalisation process at their companies if they were concerned that the rights of minority shareholders were threatened. The most well-known recent case induced by the Decree No.107 was the renationalisation of the confectionary companies ‘Spartak’ and ‘Kommunarka’, whose shares were ceased from the American investor who bought them in the 1990s. The court found violations in the initial privatisation procedure and ruled in favour of the state regardless of the fact that a 10-year limitation period on those shares had expired long before then (Manenok, 2016). The need to protect the interests of minority shareholders was again the formal reason given by the state.

Similar to Doing Business reports, the Corruption Perception Index (see e.g., Transparency International, 2016) largely relies on a number of formal measurements. The use of the survey of the businesses as the main data collection method makes it more reliable than Doing Business. At the same time, when applied to the authoritarian country like Belarus, not to the traditional market democracies, CPI suffers from the same problems as DB. Its survey takes into account the perceptions of private companies, leaving state-owned and quasi-privatised enterprises outside of the analysis, thus adversely affecting the validity and generalisability of the final scores. Besides, personal perceptions of selected analysts, experts and businessmen on corruption may differ quite considerably from a day-to day business practice. Also, CPI does not account for the multiplicity of the forms of corruption. For example, private companies in Belarus do not need to bribe government officials on a daily basis but may have to provide non-monetary

favours or services (e.g., sponsor certain events) in order to reduce the amount of red tape. Another weakness of the Corruption Perception Index is that it does not account for extensive informal connections businesses in the countries with suppressing institutional environment must develop in order to survive. It also does not account for the amount of corruption-induced nepotism (e.g., hiring or promoting workers with certain governmental connections) which has been very common in Belarus (Danilovich and Croucher, 2015).

Thus one can argue that despite being useful sources of information on certain aspects of the business climate and institutional environment in Belarus, the indexes developed by international organisations fail to fully capture the reality of the relationships between the business and its institutional environment in this particular ‘pseudo-market’ economy.

State-business relations in Belarus: the findings from the empirical study

The empirical study aimed to fill the gaps in our understanding of the relationships between the state and companies in Belarus left by the indexes developed by international organisations. The analysis of the interview and statistical data resulted in a number of important findings.

We found clear differences between the management’s level of autonomy at state-controlled (state-owned and quasi-privatised) and private companies in a number of areas (Table 2).

Table 2

Level of independence in company decision-making in Belarus, type of ownership

Type of	Areas of decision-making
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ownership	Attracting outside investments	Retaining profit	Reinvesting profit	Changes in the level of output	Managing internal labour markets
State-owned	permission from the kontsern needed, involves a large degree of informality	only profits in Belarusian rubles may be retained, currency is to be sold to the government	permission from the kontsern needed for every new project, has to be negotiated	are set centrally, have to be negotiated	according to the Labour Code and Presidential decrees
Quasi-privatised	permission from the kontsern needed, involves a large degree of informality	only profits in Belarusian rubles may be retained, currency is to be sold to the government	permission from the kontsern needed for every new project, has to be negotiated	are set centrally, have to be negotiated	according to the Labour Code and Presidential decrees
Fully private	no government control	only profits in Belarusian rubles may be retained, currency is to be sold to the government, if not a resident of a free economic zone	no government control but is subject to inspections by state controlling bodies "for crime prevention reasons"	no government control	according to the Labour Code and Presidential decrees

Source: interview data, company archives

Although, by law, every domestic company has absolute freedom over the distribution of funds and making investment deals, in reality the need to obtain permissions and constantly negotiate with their branch ministry or managing *kontsern* makes enterprise management a weaker party in state-business relations. Deputy directors

interviewed for the study assent that obtaining the ministry's consent on attracting external investors or reinvesting profits into new projects, for example, depends on 'certain special relations' the enterprise holds with its institutional superiors. These relations, they admit, are largely based on the enterprise being 'in the ministry's good books' by continuously achieving set output targets and not asking for subsidies.

Good personal relationships between the enterprise director and 'the people above' also play an important role. As one of them put it: 'If they see that enterprise is doing fine, no labour conflicts, deficits or anything of the kind, then they know that the director can be trusted. Yes, it takes a lot of persuasion every time because no one wants to be blamed if things don't exactly work out as promised'. When asked whether such negotiations have any elements of informality, the senior managers usually resort to Aesop language, using phrases like 'well, you should understand, things are never just done...', 'good people eventually always understand each other', 'good human relations between people is the key to success', and so on. They never openly admitted to offering bribes to government officials or being asked for any. Instead, deputy directors usually referred to 'negotiations'. At the same time, some interviewees mentioned that there exists a certain degree of mutual dependency between their companies and branch ministries/*kontsers* since the latter are ultimately responsible for ensuring that the government-set targets for their industries are met. The responses therefore implicitly confirm that in certain areas enterprise management of successful companies has a lot of leverage with their superiors in government institutions which strengthen its bargaining position.

However, things change dramatically if the enterprise is bidding for funds from one of the government investment programmes. In the words of the planning manager of

the wood processing plant, ‘these are a curse rather than a blessing because the control over the money is so strict that you never know when and in what you find yourself guilty’. Her peer from the machine-building plant said in his ‘kitchen interview’: ‘the state money always comes with the plan signed you know where [he pointed at the ceiling], so we can’t really go sideways. Even when it was obvious for us that the return won’t be what they thought in the Ministry it would be, we could not really do anything but go with the flow. The director and our department tried to negotiate with them so that the money would be better used for other purposes, but it was like bumping into the wall: you got money for modernisation, so go on and modernise. Modernise how, and what to do with all these people [excess personnel after modernisation], there was no instruction. Just, the President gave you the money, which means he trusts you, don’t betray his trust! And this is the worst thing of all: fine, you get those lathes; stick them onto the shopfloor and then what?! Same people, same targets, same materials, no orders, so how do we show all this profit they expect to see? Now we have a new director and the deputy directors were all removed from office, luckily not to prison, and we are still no better off, so who knows how long these new ones are going to remain’.

When asked whether there was a way to go around the rules, the common answer was ‘of course there are and quite a few, but not with the state investment, it is too much risk’. Thus, to use Zartman and Rubin (2000), when Belarusian government uses its superior position as the sole institutional investor, it exhibits typical exploitative behaviour towards the enterprise receiving the funds depriving the latter of any opportunity to negotiate the conditions and use of the funds provided.

Private companies which are not subordinated to ministries or *kontserns* report very little use of informal connections and need for negotiation in these areas. They are

usually free to choose and attract investors or reinvest their profits, provided that they prove to the controlling government bodies that the funds are not used in illegal deals or to fund anything outside their primary economic activity (i.e., funding political opposition or sponsoring independent civil society organisations). Private companies have very little access to state investment programs unless the governments sees them as strategically valuable, in which case state investments may be forced upon private companies as the means of gaining control over them. The CEOs of private IT companies admitted that they use their informal connections most on rare occasions when they bid for state contracts. This relative independence from the state gives successful private companies a stronger bargaining position in negotiations with government institutions thus largely shielding them from petty corruption.

Both state-controlled and private companies have received much more freedom in the area of intra-firm investments in the recent years, compared to the previous research (see Danilovich and Croucher, 2011; 2015; Danilovich, Croucher and Makovskaya, 2016). The most significant changes have taken place in the area of investment in personnel. Presidential Decree No.5 ‘On the intensification of the requirements to senior managers and workers in organisations’ (15.12.2014) considerably widened the rights of the employer with regards to the workforce. The employer received the right to fire at will under the newly introduced ‘discriminating circumstances’ definition², as well as the right to change the working conditions (including pay) in individual contracts with a 7-day notice given to the workers. In case the worker refuses to accept the new working and pay conditions, the employer has the right to dismiss them without pay. These

² ‘Discriminating circumstances’ refer to any circumstances which an employer deems damaging, or potentially damaging, to the company and its reputation. In Belarussian context, this definition is usually used to describe any manifestations of job dissatisfaction by workers or unauthorised trade union activity.

‘innovations’ resulted in a considerable reduction of enterprise expenditure on the workforce, particularly of investments in training and retraining. Training budgets for the personnel in highly-skilled technical and managerial positions (previously main recipients of work-related training) were slashed, and training of blue-collar workers is now limited to in-house health and safety training. As the labour planning manager of one of the machine-building plants put it: ‘of course, we understand everything, and we feel for workers. At the end of the day, we are all workers and all in the same situation. But these are hard times, the enterprise cannot afford to give that much to people and people should understand that. And they do: if earlier we had many people coming requesting and even insisting [on training], now we don’t. And they usually don’t scream about this, because no one wants to become a parasite [in this, she referred to another ‘innovation’ – the Presidential Decree No.3 (2.04.2015) widely known as ‘the law on social parasites’ which requires the unemployed to pay \$US245/year to finance the state welfare]’.

Company statistics confirms continued practice of rehiring existing employees on new contracts to avoid paying for training or hiring ‘from the street’ on short-term fixed contracts, the trend noticed in our earlier research (Danilovich and Croucher, 2015). The data shows that the overall investment in training has fallen below 0.1 percent of the total expenditure on personnel at 8 out of 9 state-controlled companies in the sample.

Private companies have always enjoyed more freedom in dealing with their personnel and their investments in training were traditionally lower than at state-controlled enterprises. Since the introduction of new legislation, the statistical data on retail and service private companies in the sample shows that they have stopped investments in training and retraining altogether. IT companies still have some funds

allocated for these investments but rarely use them as the management encourages employees to self-study.

With regards to their day-to-day economic activities, neither state-controlled, nor private companies admit the need to regularly use their informal connections thus giving certain credibility to the conclusions of the Corruption Perception Index and the Doing Business ratings. Informal connections and negotiating favours are used in daily activities only in dealing with certain inspecting bodies such as the fire inspection and the sanitary control committee. The companies that are affected the most are private retail and service companies due to nature of their business. The CEO of one of the private retail companies even admitted having a small ‘investment budget for greasing things up’. State-controlled enterprises that have special labour protection engineers on their payroll are much less affected. At the same time, the CEOs of two IT companies interviewed for the study did not see much of informality in their daily operations. Their use of informal connections is low and is limited to the periodic visits from fire and sanitary inspection and the relations with individual tax inspectors when submitting quarterly and yearly figures.

DISCUSSION AND CONCLUSION

It has been previously argued that the fluidity of formal institutions which followed the collapse of the Soviet Union led to state capture by informal oligarchic structures across the post-Soviet space. Our analysis only partially confirms this thesis. Indeed, the first decade of post-Soviet transition was characterised by the destruction of Soviet institutional system and the emergence of business and ethnic interest groups which managed to largely capture/colonise formal government institutions. However,

subsequent changes in a number of the economies in the region limited the influence of informal business lobbying networks.

The analysis of the literature reveals that although the majority of the economies are characterised by varying degrees of institutional fluidity, the reality of state-business relations differs quite considerably across the region. However, changes to the transition path witnessed in the last two decades, notably declining number of liberal reforms, recentralisation of economic and political apparatus, indicate that the majority of former Soviet economies have been gradually moving away from establishing capitalist economic models towards much less liberalised regulatory regimes. As bad and disfunctional as they may sound, these newly found regulatory modes frequently provide certain development opportunities for business within the new, stricter rules of the game.

Unlike in other post-Soviet states, business structures in Belarus never managed to reach the level of power that would've allowed them to directly influence government economic policy. The preservation of Soviet type state-business relations is characterised the high degree of institutional concentration manifested in a direct government control over the majority of the companies either through direct ownership or the controlling stake. Thus, in order to maintain a certain degree of autonomy over their investment decisions and compensate for their wittingly weaker negotiating position, the management of state-controlled companies is forced to establish close informal connections with their superiors in governmental structures.

On the other hand, private companies which are supposed to be totally suppressed by the Soviet-style regulatory machine, enjoy more freedom than the state-controlled enterprises which have been shielded from competition for a long time by government subsidies, grants and investment funding. However, our findings indicate that even these

enterprises have a certain degree of autonomy in investment-related decision-making. It seems reasonable to suggest that under the conditions of prolonged economic crisis Belarusian government does no longer possess enough economic and institutional resources to be able to control every aspect of company activities and had to resort to directly overseeing only the areas it deems most important.

The largest increase in enterprise autonomy in the recent years has occurred in investments in personnel, particularly expenditure on training and retraining which was made unnecessary by the latest changes in labour law. In a way, this makes intra-firm employment relations more capitalist, but can also be seen as the evidence of the failure of the state ideology since the state voluntarily shifted off its responsibility to protect the labour collective from the despotism of the employer, one of the cornerstones of Belarusian 'social market economy'.

In other areas, such as access to financial resources, reinvesting profits, attracting outside investment and negotiating output targets, personal informal relationships with government institutions still play a crucial role for state-controlled companies. Some areas, such as the utilisation of the investment funds provided by the government, remain outside of the company management's control and even good informal relationships with ministries/*kontserns* cannot change the situation.

Thus, our data proves that despite operating under the conditions of the authoritarian political regime and acting from the position of a weaker party in negotiations with the government structures, both state-controlled and private domestic Belarusian companies demonstrate a certain degree of bargaining power over their government counterparts thus indirectly influencing state policies and managing to maintain a certain degree of autonomy in their investment decisions.

The Soviet legacy in state-business relations does not spread onto the relations between the government and private companies. Unlike state-controlled enterprises, private businesses in Belarus are not directly subordinated to any branch ministry or *kontsern* and thus operate largely outside of direct state control. Their relations with formal institutions are limited and resemble those in Latin America or Africa where private companies are more vulnerable to petty corruption from individual government agencies, not a direct government control.

Increasing differences in state-business relations for private and state-controlled companies have led to the situation where Belarusian economy is *de facto* two disparate economies: an excessively controlled economy of state-owned and quasi-privatised enterprises, predominantly manufacturing characterised by centrally set targets, where the enterprise directors are often pushed to resort to their extensive informal connections in order to obtain certain economic benefits; and the much less controlled economy of private companies, operating predominantly in high-tech and service sectors, where the government control is limited to overseeing the reporting and tax payments, company management is free in its day-to-day operations of any kind, and the informality is less and is at a much more individual level.

We can therefore conclude that although the ability of the majority of individual economic actors to act independently is being suppressed within the Belarusian ‘pseudo-market’ system, and the Soviet institutional legacy still largely determines state-business relations in the industry; state-controlled companies still manage to exert indirect influence on the government by having established informal connections with the formal institutions that oversee them and use high institutional concentration as the means to influence their superiors. Thus, despite obvious excessive legal regulatory burden the

Belarusian government manages to secure a certain level of tax payment from businesses by allowing them a certain degree of freedom to economic actors and thus keeping itself away from total collapse despite a prolonged economic crisis. The main question therefore is for how long limited decision-making autonomy will give companies enough incentive to keep operating?

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